European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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Feedback from the European Federation of Building Societies on the EBA consultation papers on the specification of the regulatory requirements for interest rate risk in the banking book (IRRBB) in Pillar II

1. Consultation paper on draft Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities

Draft GL on IRRBB and CSRBB (EBA/CP/2021/37):

Question 1: Deleted

Question 2:
Do respondents find that the criteria to identify non-satisfactory IRRBB internal models provide the minimum elements for supervisors' assessment?

- *Response 2:*
  In our view, the stated criteria provide the minimum elements to a sufficient extent. With regard to the three components (gap risk, basis risk and option risk), we assume that the measurement of the interest rate risk will include all three components; as we understand it, there will continue to be no requirement for separate disclosure.
  Separate disclosure of the components is not possible in a meaningful way in our business model (bausparen).

Question 3:
Is there any specific element in the definition of CSRBB that is not clear enough for the required assessment and monitoring of CSRBB by institutions?

- *Response 3:*

*The definition and guideline for CSRBB are, in our view, not yet clear enough. An **example** with exemplary credit spread shifts and indicative market data would help us to better understand the expectation arising from the paper.*

Question 4:
As to the suggested perimeter of items exposed to CSRBB, would you consider any specific conceptual or operational challenge to implement it?

- *Response 4:*

We are critical of the proposed approach for the identification of relevant items for the CSRBB.

The proposed method, namely to assess all assets, liabilities and other off-balance-sheet items for their sensitivity to credit spread risk and to justify and appropriately document

any potential exclusion of instruments, seems to us to be very time-consuming and not expedient.
For items such as private mortgage lending or, indeed, plain vanilla interest rate swaps, consideration in CSRBB measurement is not expedient, from our perspective. Credit spread changes in the market are not relevant to the conditions applicable to private mortgage lending or its portfolio. ***We therefore suggest including asset securities (bearer and registered instruments and loan notes) as the starting point in the measurement.***
The supervisory authority could then still assess the other balance sheet items for CSRBB relevance in specific cases.

Question 5:
Is the separation of IRRBB and CSRBB sufficient to understand where the Guidelines apply to:
• IRRBB only
• CSRBB only
• Both IRRBB and CSRBB?

- *Response 5:*
  From our perspective, the definition is sufficient to understand where the individual Guidelines apply to IRRBB or CSRBB or both.
  However, various points arise in relation to measurement, which should be clarified:
  - *Separate measurement of CSRBB and IRRBB (NII):*
    Does this mean separate NII simulations for shifts of yield curves and for spread shifts?
  - *Presumably, separate measurement of CSRBB and IRRBB is required with regard to net present value as well? This would be acceptable from our point of view.*

  A further question which arises at present is what the (stress) scenarios should look like?

Further comments

Definition of NII:
Changes in the net present value (FV) are to be considered in the definition of NII. However, as this leads to intermixing between present value effects and income statement effects (and, to some extent, to duplicate measuring), this approach, in our view, ***should not be used****. Depending on the business model, institutions may even be "compelled" to keep a high volume of securities that are valued above the fair value reserve. However, if the liabilities side (counterpart transaction) is not accounted at FV, this produces an incomplete/distorted picture which results purely from accounting effects. In order to avoid this, EVE and NII should continue to be measured separately. We would therefore be in favour of* ***dispensing with the consideration and limiting of the fair value reserve in the NII.***
Outside NII, separate consideration/monitoring of the fair value reserve is acceptable.

Non-performing Exposure:
We would welcome consideration of a ***materiality threshold (NPL > 2% of the portfolio)****.*

Consultation paper – draft RTS on standardised methodologies on IRRBB
CP Draft RTS on SA (EBA/CP/2021/38)

- *Following our initial examination, the standardised methodology does not seem to us to be "simpler" than many intrabank models. From our perspective, this raises the question whether those institutions whose internal measurement is assessed as inadequate will in fact be able to apply the standardised methodology in practice.*
- *In our view, the specification of a simple "minimum standard" for the models (with less differentiated portfolios and stipulations and more freedom of implementation) would be more expedient than a complex standardised methodology.*

2. Consultation paper – draft RTS on supervisory outlier tests

CP DraftRTS on SOTs (EBA/CP/2021/36)

Question 1:
Do respondents find the common modelling and parametric assumptions for the purpose of the EVE SOT and the NII SOT in Articles 4 and 5 clear enough and operationally manageable? Specifically, the EBA is seeking comments on the recalibrated lower bound for post-shock IR levels in the EVE SOT and NII SOT as well as on the use of a one-year time horizon and a constant balance sheet with current commercial margins for new business for the NII SOT. Respondents are also kindly requested to express whether they find an inclusion of market value changes in the calculation of the NII SOT clear enough.

- *Response 1:*
  - *The recalibrated lower bound is, in our view, set too "conservatively".*
  - *In the calculation of the NII SOT, we would appreciate more clarity on off-balance-sheet items. If loan commitments are to be considered in the outlier test in the NII, this would result in an increase in the balance sheet despite a constant balance sheet assumption.*
  - *A **dynamic balance sheet, including consideration of future payments on loan commitments and dynamic new business planning, would be more appropriate**, in our view, as this better reflects reality and would greatly increase the informative value of the NII SOT. A dynamic balance sheet is therefore preferable to a constant balance sheet assumption, particularly with regard to the bausparkasse business model.*
  - *The use of current margins also seems to us to be closer to reality and therefore more appropriate than historical margins.*
  - *The methodology for the consideration of market value changes in the NII SOT is adequately described.*
  - ***However, we do not regard consideration of the FV change in the NII appropriate** (see above), as this leads to intermixing between present value effects and income statement effects (and, to some extent, to duplicate measuring). Depending on the business model, institutions may even be "compelled" to keep a high volume of securities that are valued above the fair value reserve. However, if the liabilities side (counterpart transaction) is not accounted at FV, this produces an incomplete/distorted picture which results purely from accounting effects. In the SOT, the **measurement of the change should therefore be limited to net interest income.***

Question 2:
Do respondents have any comment related to these two metrics for the specification and the calibration of the test statistic for the large decline in Article 6 for the purpose of NII SOT? Specifically, do respondents find the inclusion of administrative expenses in metric 2 clear enough? Do respondents have any comment on the example on currency aggregation for metric 1 and metric 2?

- *Response 2:*
  ***Metric 1 is more appropriate for calculation of the NII SOT.** In comparison to the second variant, this metric is more transparent, offers better comparability and is closer, in terms of methodology, to the previous risk measurement (NII) and the outlier test in EVE.*
  Metric 2 is less suitable for measurement, for several reasons:
  In Metric 2, historical accounting variables in risk measurement are considered, with both administrative expenses and the calculation of alpha values. From our perspective, this should be viewed critically, particularly due to the intermixing of different periods and possible one-off balance sheet effects included in this. Intermixing between NII and income statement items outside the NII in the outlier test could create steering impulses due to past accounting effects, which have no significance economically.
  The description of the metrics are, in our view, sufficiently precise and comprehensive.

Question 3:
Do respondents consider that all the necessary aspects have been covered in the draft regulatory standard? Do respondents find the provisions clear enough or would any additional clarification be needed on any aspect?

- *Response 3:*
  We consider that all aspects have been covered and the provisions are clear enough.